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**Interim Report
for the six months ended
March 31, 1974**

To Our Shareholders:

Operating results for the first six months of fiscal 1974 are now available and I am pleased to report on our progress.

Consolidated revenues for this period were \$804,018 representing a substantial 27% increase from the corresponding period in fiscal 1973. Although a net operating loss of \$18,185 was incurred, total funds provided from operations were \$77,770 which compares quite favourably with total funds required for operations of \$41,498 in the first six months of fiscal 1973. Working capital improved during the period by \$18,309.

The key to your Company's immediate success lies in the new PC-II computer system. As revenues build each month on this system, it is evident that the selection of H 6060 hardware and Dartmouth software, forming PC-II was a most efficacious one.

One of the main strengths of PC-II relates to the COBOL language, the most widely used language in computer business applications. We believe that our interactive COBOL will give clients simplicity, speed and security in operation whilst at the same time increase productivity and thus yield savings due to reduced time required for completion of projects. Client response to date has been good and as a result, we are organizing our sales efforts to concentrate more on COBOL applications. This is a new area of the market place for PolyCom and is one example of our new versatility due to the advent of PC-II.

PC-I, our G 440 system, continues to operate at high levels and provides a solid revenue base. While total revenues are trending upward at the present time, profits can only be generated if operating expenses are reasonable in relation to sales. The high rate of inflation in the economy at the present time dictates ever constant pressure on expenses, especially in the renumeration of personnel. Notwithstanding the fact that our type of business is highly competitive, which has tended to keep profit margins slim at best, it is our policy to maintain our standard rates at existing levels as long as possible. In this way, we will be doing our part to reduce the inflation rate to a more desirable level.

I would like to comment on the sudden passing of Mr. Gerald J. Risby who retired as a Director of PolyCom in 1973 when he moved to a senior position with his company in South Africa. Mr. Risby was associated with PolyCom since its inception and your Company is greatly indebted to him for the keen judgement and encouragement which he provided at all times. The Directors of PolyCom extend their sincere sympathy to Mr. Risby's family.

A.B. Ormsby
President

June 10, 1974

POLYCOM SYSTEMS LIMITED AND SUBSIDIARIES
 (Under The Business Corporation Act, (Ontario))

**Consolidated Statement of Income and Expenses
 For the six months ended March 31, 1974**

(with comparative figures for the six months ended March 31, 1973)
 (subject to audit and year-end adjustment)

	1974	1973
Revenue:	<u>\$ 804,018</u>	<u>\$ 633,353</u>
Expenses:		
General, administrative and operating expenses	734,792	653,932
Interest expense	8,170	29,683
Depreciation and amortization	<u>83,355</u>	<u>105,418</u>
	826,317	789,033
Less interest earned	<u>4,114</u>	<u>8,764</u>
	<u>822,203</u>	<u>780,269</u>
Net Loss for the six months	<u><u>18,185</u></u>	<u><u>146,916</u></u>

Consolidated Statement of Source and Application of Funds

For the six months ended March 31, 1974

(with comparative figures for the six months ended March 31, 1973)
 (subject to audit and year-end adjustment)

Funds Provided:

Net income (loss) for the six months	(18,185)	(146,916)
Depreciation and amortization	83,355	105,418
Deferred expense written off	<u>12,600</u>	—
Total funds provided from operations	77,770	(41,498)
Sale of assets	8,970	—
Advances retired	4,000	—
	<u>90,740</u>	<u>(41,498)</u>

Funds Applied:

Additions to land, building and equipment	22,494	454,523
Reduction in long term liabilities	<u>49,937</u>	<u>58,045</u>
	<u>72,431</u>	<u>512,568</u>
Increase (decrease) in working capital during the six months	<u>18,309</u>	<u>(554,066)</u>

